INFORMATION BULLETIN

October 24, 2014 **2014-8**

ADJUSTMENT OF THE EXEMPTION THRESHOLDS FOR THE PUBLIC PRESCRIPTION DRUG INSURANCE PLAN AND OTHER MEASURES

This information bulletin specifies the amount of each exemption granted for the purposes of calculating the premium for Québec's public prescription drug insurance plan for 2014.

It also sets forth the Ministère des Finances's position on the federal changes to the application of the goods and services tax and harmonized sales tax (GST/HST) to pooled registered pension plans.

In addition, this bulletin provides detailed information on the changes that will be made to the list of investments that Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, can recognize for the purposes of calculating the investment requirement imposed on the fund.

For information concerning the matters dealt with in this information bulletin, contact the Secteur du droit fiscal et des politiques locales et autochtones at 418 691-2236.

The English and French versions of this bulletin are available on the Ministère des Finances website at: www.finances.gouv.qc.ca.

ADJUSTMENT OF THE EXEMPTION THRESHOLDS FOR THE PUBLIC PRESCRIPTION DRUG INSURANCE PLAN AND OTHER MEASURES

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1. EXEMPTIONS UNDER QUÉBEC'S PUBLIC PRESCRIPTION DRUG INSURANCE PLAN

The prescription drug insurance plan introduced by the Québec government ensures all Quebecers fair access to the medication required by their state of health. Coverage under this plan is provided either by the Régie de l'assurance maladie du Québec as administrator of the public prescription drug insurance plan, or by insurers providing group insurance or administrators of private-sector employee benefit plans.

As a general rule, the Régie de l'assurance maladie du Québec provides coverage for persons who are not required to becomes members of a group insurance contract or employee benefit plan applicable to a specified group of persons, as well as coverage for persons in whose respect no person is required to ensure coverage.

Adults registered with the Régie de l'assurance maladie du Québec are required to contribute to the payment of the cost of pharmaceutical services and prescription drugs supplied to them whenever a prescription is filled or renewed. This contribution, which is subject to a maximum amount, consists of a deductible[1] and a portion of coinsurance.[2]

However, adults whose income consists essentially of social assistance payments based on an examination of resources, needs or income are exempt from paying any contribution. This exemption, which targets the most disadvantaged persons, is geared more specifically to persons eligible for a last-resort financial assistance program stipulated in the *Individual and Family Assistance Act*,[3] as well as to persons age 65 or over who receive, under the *Old Age Security Act*,[4] 94% or more of the maximum monthly guaranteed income supplement determined without including the additional amount allowed since July 2011.

As a general rule, adults not covered by group insurance or a private-sector employee benefit plan throughout a year must pay for such year a premium to finance the public prescription drug insurance plan. For 2014, the maximum premium payable is $609 per adult.

However, most adults who are exempt from contributing to payment of the cost of pharmaceutical services and prescription drugs provided for them under the public plan are also exempt from paying this premium.

Moreover, to reflect a household's ability to pay, the premium payable by an adult for a year is determined on the basis of family income, from which an exemption amount based on the household's composition is subtracted.[5]

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1 The deductible is the portion of the cost of pharmaceutical services and prescription drugs that a person covered by the plan is fully responsible for during the reference period. Since July 1, 2014, the amount of the deductible is $200 per year, divided into equal monthly parts.

2 The coinsurance is the proportion of the cost of pharmaceutical services and prescription drugs that is charged to the covered person. Since July 1, 2014, the coinsurance proportion is 32.5%.

3 CQLR, chapter A-13.1.1.

4 R.S.C., 1985, c. O-9.

5 The amount that must be applied to reduce family income makes it possible to exempt from payment of the premium adults whose family income is below a certain threshold.

Since the introduction of the public prescription drug insurance plan, the amount of these exemptions has been adjusted annually to protect households' purchasing power. In addition, to ensure that the premium remains progressive, two contribution rates are applicable. The first rate[6] applies to the first $5 000 of covered income and the second,[7] to income in excess of $5 000.

Accordingly, to maintain the principles underlying the determination of the premium payable to the public prescription drug insurance plan, the amount of each exemption currently allowed in setting the threshold at which a premium becomes payable will be adjusted for 2014.

The following table shows the amount of each of the exemptions that will be allowed for 2014 according to household composition.

AMOUNT OF THE EXEMPTIONS ALLOWED FOR THE PURPOSES OF CALCULATING THE PREMIUM FOR THE PUBLIC PRESCRIPTION DRUG INSURANCE PLAN FOR 2014
(dollars)

Household composition	Exemption amount
1 adult, no children	15 110
1 adult, 1 child	24 490
1 adult, 2 or more children	27 775
2 adults, no children	24 490
2 adults, 1 child	27 775
2 adults, 2 or more children	30 810

2. HARMONIZATION WITH THE CHANGES TO THE APPLICATION OF THE GST/HST TO POOLED REGISTERED PENSION PLANS

On August 29, 2014, the Department of Finance Canada issued a news release containing legislative and regulatory proposals to implement changes to the goods and services tax and harmonized sales tax (GST/HST) system, so that pooled registered pension plans are subject to tax treatment similar to that of registered pension plans.[8]

In accordance with the principle of harmonization of the Québec sales tax (QST) system with the GST/HST system, the Québec tax system will be changed to incorporate, with adaptations on the basis of its general principles, the proposed federal changes to pooled registered pension plans.

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6 For 2014, the first contribution rate is 6.31% for a single person and 3.19% for a person living in a couple.

7 For 2014, the second contribution rate is 9.49% for a single person and 4.77% for a person living in a couple.

8 DEPARTMENT OF FINANCE CANADA, *News Release 2014-113 – Department of Finance Consults on Draft Tax Legislation*, www.fin.gc.ca/n14/14-113-eng.asp. A bill to implement, among other things, these changes to pooled registered pension plans was tabled in the House of Commons on October 23, 2014 (Bill C-43, entitled *Economic Action Plan 2014 Act, No. 2*).

The changes to the QST system will be adopted only after the assent of any law or adoption of any regulation stemming from the federal news release, taking into account any technical changes that may be made prior to the assent or adoption. They will apply on the same date as that set for the application of the federal changes with which they harmonize.

3. RECOGNITION OF CERTAIN INVESTMENTS MADE BY FONDACTION

Since the creation of Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi, the government has supported the fund's growth by allowing it to collect capital enjoying a tax benefit consisting of a non-refundable tax credit to individuals who become shareholders of the fund.

The financing of Fondaction being facilitated by the granting of a tax benefit, an investment requirement was included in its statute of incorporation to ensure, in particular, that the funds collected are used as a financing tool contributing to the development of Québec entities.

Accordingly, for each fiscal year, Fondaction's eligible investments – that entail no security or hypothec – must represent, on average, at least 60% of its average net assets for the preceding fiscal year.

If this investment requirement, hereunder called the "60% requirement", is not satisfied for a given fiscal year, Fondaction is systematically limited in its capacity to issue shares during the following fiscal year.

Over the years, various changes have been made to the terms and conditions for calculating the 60% requirement and to the list of eligible investments, in order to better adapt the requirement to the capital needs of Québec companies and to enable Fondaction to play a larger role in the economy.

Currently, for the purposes of the 60% requirement, eligible investments are investments that entail no security or hypothec and that consist of, among other things, investments in eligible Québec enterprises, strategic investments made in accordance with an investment policy approved by the Minister of Finance, as well as investments made in certain local venture capital funds created and managed in Québec.

To better recognize Fondaction's participation in the Québec economy, amendments will be made to its statute of incorporation.[9]

❑ Redefinition of the major investment category

Investments eligible for the 60% requirement imposed on Fondaction include investments that entail no security or hypothec made in a partnership or legal person and that consist of an initial capital outlay of at least $25 million, provided that the strategic value of the initial capital outlay is recognized after December 22, 2004, by the Minister of Finance, and that these investments are not otherwise eligible investments.

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9 *Act to establish Fondaction, le Fonds de développement de la Confédération des syndicats nationaux pour la coopération et l'emploi* (CQLR, chapter F-3.1.2).

However, when, at a given time in a fiscal year, Fondaction holds several investments that could be included in this category, hereinafter called the "major investment category", the fund's statute of incorporation provides that, at that given time, only one of the investments, representing up to 5% of the fund's net assets at the end of the preceding fiscal year, may be considered an eligible investment for the purpose of the 60% requirement.

To better adapt the major investment category to the current scope of Fondaction's activities, this category will be redefined to include investments that entail no security or hypothec made by Fondaction in a partnership or legal person and that consist of an initial capital outlay of at least $25 million or an additional capital outlay, provided that the strategic value of the initial capital outlay and, if applicable, of the additional capital outlay is recognized after December 22, 2004, by the Minister of Finance, and that the investments are not otherwise eligible investments.

In addition, to enable Fondaction to step up its participation in major projects with a structuring effect on the Québec economy, the restriction limiting this category to the investments held in one and the same entity will be eliminated. For the same reasons, Fondaction's statute of incorporation will be amended to provide that the maximum share of its net assets that may be allocated to major investments for the purpose of the 60% requirement in a given fiscal year will be increased from 5% to 10% of its net assets at the end of the preceding fiscal year.

These changes will apply to all Fondaction fiscal years beginning after May 31, 2014.

❑ Recognition of investments made by Fondaction in a fund to finance sector-based venture capital funds

Venture capital plays an essential role for innovative companies, providing them with the resources they need to expand and create jobs.

Over the last decade, the government has taken many steps to energize the venture capital industry in Québec. To ensure a supply of venture capital that is sufficient to support the development of Québec technology companies, the government participated, in particular, in the creation, in 2009, of Teralys Capital, a fund whose mission is to finance private venture capital funds focusing on information and communication technologies, life sciences and clean technologies.

To consolidate the gains of its action plan for Québec's venture capital industry, it was announced in the 2014-2015 Budget Speech that the government will participate, jointly with the federal government and other private sector players, in the creation of a new fund of venture capital funds whose mission will be, among other things, to recapitalize the most successful private funds.[10]

To recognize the contribution of Fondaction in setting up this new fund of venture capital funds, its statute of incorporation will be amended to stipulate that Fondaction's investments in the fund of funds will be considered eligible investments for the purposes of calculating the applicable 60% requirement.

10 MINISTÈRE DES FINANCES DU QUÉBEC, *Budget 2014-2015 – Budget Plan*, June 4, 2014, p. B.50.

Investments that have been agreed and for which funds have been committed but not yet disbursed at the end of a given fiscal year will also be considered eligible investments. For greater clarity, these investments will not be included for the purposes of calculating the authorized limit of 12% that generally applies to non-disbursed investments.

These changes will apply to all Fondaction fiscal years beginning after May 31, 2014.